

BEFORE THE INSURANCE COMMISSIONER
FOR THE STATE OF ARKANSAS

IN THE MATTER OF
THE REPORT OF EXAMINATION OF
FARMERS PROTECTIVE
INSURANCE COMPANY

AID NO. 2006- 036

ADOPTION ORDER

Now on this day the matter of the Report of Examination ("Report" or "Report of Examination") as of December 31, 2005, of Farmers Protective Insurance Company ("Company"), of Stuttgart, Arkansas, FMAA #A0014, is taken under consideration by Arkansas Insurance Commissioner Julie Benafield Bowman ("Commissioner"), as presented by Associate Counsel Sara Farris and the Finance Division of the Arkansas Insurance Department ("Department"). The Commissioner finds as follows:

FINDINGS OF FACT

1. The Commissioner has jurisdiction over the Company and the subject matter involved herein.
2. The Company is an Arkansas-domiciled farmers' mutual aid association.
3. Pursuant to Ark. Code Ann. §§ 23-73-104(2) and 23-61-201, *et seq.*, the Commissioner authorized and directed the Department to conduct a regular examination of the affairs, transactions, accounts, records and assets of the Company as of December 31, 2005.
4. The examination was commenced by the Department on March 6, 2006, and completed on May 17, 2006.
5. The verified Report of Examination was filed with the Department on June 8, 2006; it was then forwarded to the Company via certified mail on June 8, 2006.

The Company received the Report on June 12, 2006, according to the certified mail return receipt.

6. The Report of Examination contained the following discrepancies or deficiencies concerning the Company's operations:

(a) The Company improperly reported its common stock investment in its wholly-owned subsidiary at actual cost of \$400, rather than the statutory equity value of approximately \$30,000 in accordance with SSAP 88 *Investments in Subsidiary, Controlled and Affiliated Entities*. No examination adjustments were made as a result of this error.

(b) The Company improperly reported its investment in a General Motors Acceptance Corporation bond at the amortized cost of \$15,000 rather than the fair market value of \$11,568 in accordance with SSAP 26 *Bonds, Excluding Loan-backed and Structured Securities* and the credit quality guidance per the Securities Valuation Office. This error resulted in the Company exceeding the investment limitations in medium grade bonds of 1% of total admitted assets, per Ark. Code Ann. § 23-63-805(7)(A)(ii)(b) by approximately \$9,000. No examination adjustments were made as a result of this error.

(c) The Company was improperly calculating its unearned premium reserve using a daily pro rata approach over the current payment term of the policy rather than the annual policy term in accordance with SSAP 53 *Property and Casualty Contracts-Premiums*, paragraphs three (3) and five (5). Thus, the unearned premium reserve does not include an accrual for premium related to policies written prior to December 31, 2005, or a reduction to unearned premium

reserves for unearned ceded premium relating to property insurance. The Company's unearned premium reserve was understated by approximately \$47,000; this also resulted in the Company understating its premium receivable by approximately the same amount. No examination adjustments were made as a result of this error.

7. The Company did not send the Department a letter responding to the examiner's comments on the draft Report of Examination.


THEREFORE, pursuant to the provisions of Ark. Code Ann. §23-61-205, the Commissioner hereby orders:

1. The Examination Report, as filed with the Department, is hereby adopted.
2. The Company shall properly report its wholly-owned subsidiary in accordance with SSAP 88 in all future filings.
3. The Company shall properly report its bond investments in accordance with SSAP 26, Securities Valuation Office requirements, and applicable investment limitations in all future filings.
4. The Company shall properly report its unearned premium reserve and any related receivables in accordance with SSAP 53 in all future filings.
5. That the Department shall forward a copy of this Order and the adopted Examination Report, as filed, to the Company via certified mail. The mailing to the Company shall include specimen affidavit forms for the Company's Directors to use in acknowledgement of receipt of the adopted Report of Examination and this Order.

6. Within twenty (20) days of receipt of this Order and the adopted Examination Report, the Company shall file with the Department affidavits executed by each one of its Directors, stating under oath or affirmation that each has received a copy of this Order and the adopted Examination Report; and

7. The adopted Examination Report shall be open for public inspection upon the expiration of thirty (30) days from the Company's receipt of this Order.

IT IS SO ORDERED this 7th day of August 2006.


JULIE BENAFIELD BOWMAN
INSURANCE COMMISSIONER
STATE OF ARKANSAS